

## Message Text

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ORIGIN NODS-00

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DRAFTED BY E:RPOATS:ES

APPROVED BY E:CWROBINSON

S/S - MR. ORTIZ

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S E C R E T STATE 000827 TOSEC 250146

NODIS

E.O. 11652:GDS

TAGS:ENRG, IR

SUBJECT:BILATERAL OIL AGREEMENT

TO THE SECRETARY FROM UNDERSECRETARY ROBINSON

1. RECEIVED FOLLOWING RESPONSE FROM ANSARY TO MY MESSAGE OF DEC. 30: "ALTHOUGH I APPRECIATE YOUR EXPLANATION REGARDING THE NEED FOR YOU TO OBTAIN CONGRESSIONAL APPROVAL, I DO NOT THINK COMMENTS ARE CALLED FOR AT THIS TIME. I MUST, HOWEVER, POINT OUT IN RESPONSE TO YOUR REFERENCE TO THE PRICES OF IRANIAN CRUDE THAT WE ARE NOT PREPARED TO CHANGE OUR PRICES UNILATERALLY. WE ARE, HOWEVER, PRESENTLY DISCUSSING WITH OUR OPEC PARTNERS THE NEED FOR ESTABLISHING A PROPER BASIS FOR DETERMINING PARITIES BETWEEN DIFFERENT TYPES OF CRUDE. SHOULD THE ESTABLISHMENT OF SUCH A BASIS PROVE THAT PRICES OF IRANIAN CRUDE ARE OUT OF LINE, AN ADJUSTMENT ON OUR OWN PART WOULD BE APPLICABLE TO CRUDE SOLD UNDER BILATERAL AGREEMENT. IF YOU ARE INTERESTED, WE WILL AWAIT YOUR REPLY.

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BEST WISHES FOR A HAPPY NEW YEAR."

2. ANSARY'S FIRST SENTENCE IS FURTHER EVIDENCE THAT PROSPECT OF OUR PUTTING BILATERAL AGREEMENT THROUGH GAUNTLET OF CONGRESSIONAL APPROPRIATION PROCESS HAS NOT STIFLED IRANIAN INTEREST IN BILATERAL DEAL. HIS REFERENCE TO UNILATERAL

PRICE-FIXING RAISES AN IMPORTANT TACTICAL ISSUE FOR US. IRAN'S BASE PRICES UNDER OUR BILATERAL AGREEMENT MUST BE COMPETITIVE WITH OTHER OPEC COUNTRIES; OTHERWISE WE WILL NOT BE ABLE TO ASSURE DEFENSE DEPARTMENT OR CONGRESS THAT THE BILATERAL PROGRAM CAN OPERATE WITHOUT INCURRING LOSSES. ANSARY'S STATEMENT THAT IRAN WILL NOT CHANGE ITS PRESENT BASE PRICES "UNILATERALLY" PRESUMABLY MEANS IT WILL NOT CHANGE THEM AS CONSEQUENCE OF BILATERAL NEGOTIATION WITH USG. INDEED, FROM US POINT OF VIEW IT IS BETTER TO AVOID NEGOTIATING WITH IRAN AN AGREEMENT ON WHAT IRAN'S REGULAR EXPORT PRICES SHOULD BE, BECAUSE RESULT MIGHT BE INTERPRETED BY OUR CRITICS AS IMPLYING USG APPROVAL OF NEGOTIATED (HIGH) PRICES AS "REASONABLE". MY CONCLUSION IS THAT WE SHOULD ENCOURAGE ANSARY TO SEEK SPEEDY RESOLUTION OF CRUDE PRICING DISPUTES WITHIN OPEC AND BE READY TO SIGN BILATERAL AGREEMENT AS SOON AS IRANIAN PRICES ARE MADE COMPETITIVE BY EITHER THIS PROCESS OR BY UNILATERAL ACTION OF A GOI EXASPERATED AT ITS OPEC PARTNERS--NOT AT USG. THE SHAH'S EVIDENT DESPERATION TO REVERSE DOWNWARD SPIRAL OF IRANIAN OIL EXPORTS AND REVENUES WILL ASSURE US THAT HE WILL MOVE URGENTLY ON PRICE CORRECTION WE MUST WATCH IRAN'S ACTIONS ON PRICE FRONT AS WE PLAN FURTHER STEPS IN NEGOTIATING BILATERAL AGREEMENT. INGERSOLL

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